

Message Text

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PASS CEA FOR GREENSPAN, TREASURY FOR BENNETT AND WIDMAN,
FEDERAL RESERVE FOR ROBERT SOLOMON

E.O. 11652: N/A

TAGS: ECON, EFIN, OECD

SUBJECT: OECD ECONOMIC POLICY COMMITTEE NOVEMBER 17-19:
SCENARIO AND ISSUES

REF: (A) OECD PARIS 26074, (B) OECD PARIS 25844,
(C) DOCUMENT CPE(74)10, (D) DOCUMENT CPE(74)11,
(E) DOCUMENT CPE(74)12

1. SUMMARY: THIS MESSAGE REPORTS ON PROGRAM FOR EPC
MEETING NOV. 18 - 19 AND FOR RESTRICTED MEETING EPC'S
"EXPANDED BUREAU" EVENING NOV. 17. DISCUSSION LIKELY
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TO FOCUS ON (A) REACTIONS TO SECRETARIAT'S PROJECTIONS

THROUGH 1975 OF VIRTUAL STAGNATION OF DEMAND IN OECD AREA, GROWING UNEMPLOYMENT, PERSISTENCE STRONG INFLATIONARY PRESSURES AND SLOWDOWN IN TRADE, (B) POLICY DILEMMAS (E.G., INFLATION/UNEMPLOYMENT TRADE-OFF) POSED BY SUCH OUTLOOK, (C) SECRETARIAT'S ARGUMENTS IN FAVOR RELATIVELY EARLY REFLATIONARY MEASURES, INCLUDING RELAXATION MONETARY POLICY AND RENEWED CONSIDERATION OF USING INCOMES POLICIES AND (D) EXTENT TO WHICH POSSIBLE TO IMPROVE POLICY "CONCERTATION" AMONG OECD COUNTRIES TO INFLUENCE DIRECTION INTERNATIONAL MULTIPLIER EFFECT AND ACHIEVE BETTER DISTRIBUTION OF PAYMENTS BALANCES. IN VIEW WEIGHT U.S. ECONOMY, U.S. VIEWS ON THESE ISSUES WILL BE OF CENTRAL INTEREST TO EPC PARTICIPANTS. END SUMMARY.

2. SCENARIO. MISSION UNDERSTANDS SECRETARIAT HAS SUGGESTED FOLLOWING SEQUENCE TO EPC CHAIRMAN DOUGLAS ALLEN:

(A) RESTRICTED MEETING OF EPC'S "EXPANDED BUREAU" (HEADS OF EPC DELEGATIONS FROM OECD'S BIG SEVEN COUNTRIES) WHICH BEGINS 6PM ON SUNDAY, NOV. 17 AT CHATEAU DE LA MUETTE, WILL OPEN WITH BRIEF (5-MINUTE) REMARKS BY PARTICIPANTS ON SITUATION AND MAIN POLICY PROBLEMS IN THEIR COUNTRIES. LIKELY ALLEN WILL FIRST CALL ON CHAIRMAN GREENSPAN TO EXPLAIN U.S. SITUATION AND OUTLOOK. DRAWING ON THESE STATEMENTS, ALLEN WILL THEN SUGGEST KEY ISSUES FOR FURTHER EXCHANGE OF VIEWS. EXPECTATION IS THAT RESTRICTED MEETING (AND DINNER WHICH WILL FOLLOW) WILL BE BOTH MORE INFORMAL AND MORE CANDID THAN PLENARY EPC SESSION. AT RESTRICTED SESSION, SECRETARY-GENERAL VAN LENNEP MAY SEEK OPINIONS ON ROLE AND SCOPE THAT BIG SEVEN HEADS OF DELEGATION WISH TO GIVE TO "EXPANDED BUREAU" FORUM, INCLUDING FREQUENCY WITH WHICH THIS GROUP SHOULD MEET.

(B) WHILE EPC PROGRAM WILL BE DISCUSSED AT RESTRICTED MEETING, EXPECTATION IS THAT PLENARY EPC MEETING WILL DEVOTE FULL DAY NOV. 18 TO DOMESTIC ECONOMIC SITUATION WITH FINAL SESSION OF MORNING NOV. 19 MOVING ON TO INTERNATIONAL SECTOR. AGAIN PROBABLE THAT ALLEN WILL LIMITED OFFICIAL USE

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ASK CHAIRMAN GREENSPAN TO LEAD OFF WITH STATEMENT ON U.S. ECONOMY, INCLUDING HIS VIEWS ON SECRETARIAT'S FORECASTS OF TRENDS ON BASIS PRESENT POLICIES AND WHAT HE BELIEVES ARE MAIN U.S. POLICY IMPERATIVES IN MONTHS TO COME. ALLEN MAY THEN TURN TO GERMANY, JAPAN AND U.K. AND COUPLE OF SMALLER COUNTRIES SUCH AS SWEDEN AND SPAIN.

3. PRINCIPAL POLICY ISSUES. EPC DELIBERATIONS WILL BE LARGELY BASED ON DOCUMENTATION PREPARED BY SECRETARIAT, ESPECIALLY MAIN ISSUES PAPER (REFERENCE D). THESE DOCUMENTS INCORPORATE SECRETARIAT'S PROJECTIONS OF ECONOMIC TRENDS THROUGH 1975' WHICH WERE DISCUSSED AT RECENT MEETING OF SHORT-TERM FORECASTERS (SEE SEPTTEL). ORAL REPORT ON RESULTS SHORT-TERM FORECASTERS DISCUSSION WILL BE MADE TO EPC.

4. MAIN DOMESTIC ISSUES POSED BY THE SECRETARIAT'S

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DOCUMENTS INCLUDE:

(A) DO COUNTRIES AGREE WITH FORECASTS WHICH IMPLY VIRTUAL STAGNATION OF DEMAND AND OUTPUT IN OECD AREA, WITH RISING UNEMPLOYMENT AND DISAPPOINTING OUTLOOK ON PRICE FRONT (WITH MOST COUNTRIES CONTINUING EXPERIENCE DOUBLE DIGIT INFLATION RATE)?

(B) IMPLICATIONS OF FORECASTED TRENDS FOR DOMESTIC POLICIES, INCLUDING VIEWS ON INFLATION/UNEMPLOYMENT TRADE-OFF, AND TIMING AND NATURE OF POLICY RESPONSES.

(C) SECRETARIAT'S VIEW THAT RELAXATION OF POLICIES LIMITED OFFICIAL USE

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OF RESTRAINT WILL PROBABLY HAVE TO BE TAKEN FAIRLY SOON, LEST RISK OF RECESSION FOLLOWED BY "VIOLENT REFLATION" (I.E. STOP AND GO) IS INCREASED. SECRETARIAT SUGGESTS MONETARY POLICY MAY BE FIRST CANDIDATE FOR RELAXATION AND THAT NEW EMPHASIS INCOMES POLICIES SHOULD BE GIVEN SERIOUS CONSIDERATION (INCLUDING NEW STUDY BY EPC'S WP-4). IN SECRETARIAT'S VIEW GOVERNMENTS MAY NOW BE IN STRONGER POSITION TO BARGAIN EXPANSIONARY POLICIES AGAINST EFFECTIVE COMMITMENTS ON PRICE AND WAGE BEHAVIOR.

5. WHILE SECRETARIAT BELIEVES THAT MORE COMPREHENSIVE DISCUSSION OF BALANCE OF PAYMENTS SITUATION WILL BE LEFT TO WP 3 ON NOVEMBER 19 AND 20, IT SUGGESTS THAT EPC ADDRESS THE FOLLOWING ISSUES IN THIS AREA:

(A) IS THERE AGREEMENT WITH SECRETARIAT'S FORECASTS OF SLOWDOWN IN GROWTH OF TRADE IN 1975?

(B) IS THERE AGREEMENT WITH THE SECRETARIAT'S FORECASTS OF THE DISTRIBUTION OF CURRENT ACCOUNT DEFICITS IN THE OECD? WHAT ARE THE IMPLICATIONS OF THIS DISTRIBUTION AND THE EMERGENCE OF EXTREME POSITIONS (E.G. GERMAN AND DUTCH SURPLUSES AND ITALIAN AND U.K. DEFICITS) FOR APPROPRIATE COURSE OF DOMESTIC POLICIES? TO WHAT EXTENT ARE BALANCE OF PAYMENTS FACTORS, RATHER THAN DOMESTIC CONSIDERATIONS, INHIBITING EXPANSIONARY POLICIES?

(C) WHAT IS SCOPE FOR USING ECONOMIC INSTRUMENTS FOR ECONOMIZING USE OF OIL, PARTICULARLY IN TERMS OF LONGER-TERM PERSPECTIVE OF MAKING BEST USE OF A NON-RENEWABLE RESOURCE?

6. FROM BOTH DOMESTIC AND INTERNATIONAL STANDPOINTS, SECRETARIAT POSES QUESTION FOR EPC OF EXTENT TO WHICH

POLICY COORDINATION AND "CONCERTATION" CAN BE IMPROVED,
SO AS TO DIRECT INTERNATIONAL MULTIPLIERS EFFECT
IN THE MOST DESIRABLE DIRECTION AS WELL AS TO ACHIEVE
MORE SUSTAINABLE DISTRIBUTION OF PAYMENTS
BALANCES ON CURRENT ACCOUNT.
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